

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 2750-01
Bill No.: SB 1009
Subject: Consumer Protection; Contracts and Contractors; Insurance Dept.; Insurance -
General; Motor Vehicles
Type: Original
Date: March 1, 2004

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
Total Estimated Net Effect on General Revenue Fund	\$0	\$0	\$0

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
Insurance Dedicated Fund	\$0	\$0	(Unknown less than \$62,761)
Total Estimated Net Effect on <u>All</u> State Funds	\$0	\$0	(Unknown less than \$62,761)

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 5 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of State Courts Administrator** assume the proposal will have no fiscal impact on their organization.

Officials from the **Office of the Secretary of State (SOS)** state this proposal regulates the sale of motor vehicle extended service contracts. The proposal will result in the Department of Insurance promulgating rules to implement the legislation. Based on experience with other divisions, the rules, regulations and forms issued by the Department of Insurance could require as many as 10 pages in the *Code of State Regulations*. For any given rule, roughly one-half again as many pages are published in the *Missouri Register* as are published in the Code because cost statements, fiscal notes and notices are not published in the Code. The estimated cost of a page in the *Missouri Register* is \$23.00. The estimated cost of a page in the *Code of State Regulations* is \$27.00. The actual costs could be more or less than the numbers given. The fiscal impact of this legislation in future years is unknown and depends upon the frequency and length of rules filed, amended, rescinded and withdrawn. The SOS estimates the cost of this legislation to be \$615 [(10 pp x \$27) + (15 pp x \$23)].

Oversight assumes the SOS could absorb the costs of printing and distributing regulations related to this proposal. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriation process.

ASSUMPTION (continued)

Any decisions to raise fees to defray costs would likely be made in subsequent fiscal years.

Officials from the **Department of Insurance (INS)** state in order to enforce the provisions of the proposal, the INS estimates it would require one (1) additional Financial Analyst Specialist II to process registrations, review company financial statements, examine the reserve accounts, review any 10Ks filed, and verify company net worth. The INS also estimates that an additional Investigator II would be required to handle provisions of Section 407.1224, which allows for conducting investigations and examinations for the protection of policyholders. The INS cannot estimate how many companies will be registered but assumes it would be less than 100. If the numbers are considerably more, additional staff will need to be requested.

Revenue will be generated as a registration fee is required to be paid annually. The INS is unable to estimate the number of companies, so potential revenue is unknown. The proposal does not indicate where fees will be deposited, but INS assumes the fees would be deposited into the Insurance Dedicated Fund, where other such fees are deposited.

Section 407.1203.1.4 exempts provider fees from premium taxes but requires tax be paid on premiums for reimbursement insurance policies. Premium tax is currently collected for premiums for reimbursement insurance policies handled through insurance companies. The INS assumes any additional premium taxes collected would be minimal and has not made any estimates for additional revenues.

This proposal becomes effective January 1, 2007. The INS estimates costs for this proposal of \$65,714 for the last six months of FY 07.

Oversight has, for fiscal note purposes only, changed the starting salary for the Financial Analyst Specialist II and Investigator II to correspond to the second step above minimum for comparable positions in the state's merit system pay grid. This decision reflects a study of actual starting salaries for new state employees for a six month period and the policy of the Oversight Subcommittee of the Joint Committee on Legislative Research.

This proposal will affect Total State Revenue.

<u>FISCAL IMPACT - State Government</u>	FY 2005 (10 Mo.)	FY 2006	FY 2007 (6 Mo.)
INSURANCE DEDICATED FUND			
<u>Income - Department of Insurance</u>			
Registration fees	\$0	\$0	Unknown
<u>Costs - Department of Insurance</u>			
Personal service costs (2 FTE)	\$0	\$0	(\$34,438)
Fringe benefits	\$0	\$0	(\$14,257)
Equipment and expense	<u>\$0</u>	<u>\$0</u>	<u>(\$14,066)</u>
Total <u>Costs</u> - Department of Insurance	<u>\$0</u>	<u>\$0</u>	<u>(\$62,761)</u>
ESTIMATED NET EFFECT ON INSURANCE DEDICATED FUND	<u>\$0</u>	<u>\$0</u>	<u>(Unknown less than \$62,761)</u>
 <u>FISCAL IMPACT - Local Government</u>			
	FY 2005 (10 Mo.)	FY 2006	FY 2007
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

The proposal would impact small business automobile dealerships and other businesses that sell and service extended service contracts.

DESCRIPTION

This proposal regulates the sale of motor vehicle extended service contracts for the repair, replacement or maintenance of motor vehicles. The proposal does not apply to warranties, maintenance agreements, commercial transactions and service contracts sold to non-consumers. The proposal requires those providing service under a motor vehicle extended service contract to demonstrate financial responsibility by insuring the service contracts under reimbursement insurance policies or by other means such as providing a surety bond. Service contract administrators are required to register with the Department of Insurance. The proposal provides for the requirements of a reimbursement insurance policy for insuring a motor vehicle extended service contract. The proposal specifies the form and content of motor vehicle extended service contracts and requires contract administrators to maintain certain records. This proposal provides for civil penalties for violating the act and gives the Director of the Department of Insurance

various powers to enforce the act's provisions.

DESCRIPTION (continued)

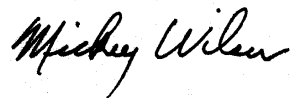
This proposal is based after the National Association of Insurance Commissioners (NAIC) Service Contracts Model Act.

This proposal has an effective date of January 1, 2007.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of State Courts Administrator
Department of Insurance
Office of Secretary of State

A handwritten signature in black ink that reads "Mickey Wilson". The signature is written in a cursive, flowing style.

Mickey Wilson, CPA
Director
March 1, 2004